

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN THE COUNCIL CHAMBER, CIVIC OFFICES, ANGEL STREET, BRIDGEND ON THURSDAY, 3 MARCH 2011 AT 2.00PM

Present:-

Councillor E Dodd - Chairperson

Councillors

C Davies
G Davies
P A Evans
T Hacking

Councillors

M Reeves
C Westwood
M Wilkins

Officers:-

D MacGregor - Assistant Chief Executive - Performance
H Smith - Chief Internal Auditor
G Doak - Group Auditor
I Pennington - KPMG Director
K Bagott - KPMG Manager
C Branford - Democratic Services Officer - Committees

161 APOLOGIES FOR ABSENCE

Apologies were received from the following Members:

Councillor D Buttle - Medical Appointment
Councillor M Gregory - Other Council Business

162 DECLARATIONS OF INTEREST

None.

163 MINUTES OF THE PREVIOUS MEETING

RESOLVED: That the minutes of a meeting of the Audit Committee dated 20 January 2011 be approved as a true and accurate record.

164 EXTERNAL AUDIT REPORT - FINANCIAL STATEMENTS AUDIT PLAN 31 MARCH 2011

The Assistant Chief Executive - Performance presented a report the purpose of which was to introduce the Council's External Auditor's Financial Statements Audit Plan 31 March 2011.

The Director, KPMG advised Members that the Audit Plan provided an opinion on the Council's accounts and its use of resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness in the Council's use of resources.

The Manager, KPMG explained that there were four key stages in the financial statements audit process: planning, control evaluation, substantive procedures

and finalisation. She explained that one of the main changes from last year was the move to International Financial Reporting Standards (IFRS). KPMG would work closely with the Council's finance team to ensure a smooth transition to IFRS. She explained that the term 'materiality' was the margin of error which KPMG would accept before they qualified their opinion on the accounts. She advised that small amounts of difference would not be reported, however, any individual errors above £200,000 would be reported to the Audit Committee.

The Assistant Chief Executive - Performance advised the Committee that should the proposed new strategy for auditors' work on grants be adopted it would mean changes to the volume of work undertaken to certify the Council's claims and returns to grant paying bodies. Under the proposed strategy grant claims of £100,000 and above would require certification.

The Director KPMG advised that KPMG had reported last summer on grant claims and BCBC's work was good with few errors. The Assistant Chief Executive - Performance advised that this was not the case with all local authorities and emphasised the importance of maintaining the good standards in Bridgend.

A Committee member advised that they needed assurance that controls were being maintained and asked how many grants there were above £100,000.

The Assistant Chief Executive - Performance advised that a significant amount of the grants were above £100,000. He advised that more details were contained in the Auditor General's consultation document, copies of which he would circulate to the Member who had asked the question.

The KPMG Manager explained that one of the key audit risks for 2011 was the transition to IFRS which would be a labour intensive process requiring a significant amount of planning by the Council. However, BCBC's finance team were making good progress towards the transition. Further risks were the possibility of the Council's assets becoming impaired declining asset values and the present economic conditions, contract management, equal pay/job evaluation, budgetary constraints and payroll costs. BCBC's financial statements reflected provision made for job evaluation and the figure would become more accurate as further progress was made. A control issue was identified during the last year in respect of payroll costs and extra work would be done this year to ensure that appropriate controls were in place.

In response to a question from Members, the Assistant Chief Executive - Performance advised that any audit difference identified by the Auditors may did not indicate a loss to the Authority but could be an issue of misreporting. The Auditor would be the arbiter but in most instances, an agreement was generally reached. However, it was important that the process was in place so that the Audit Committee could be assured that the accounts provided a true and fair representation of the Council's financial position. He explained that the instruction on what fees would be charged was awaited.

The Director, KPMG discussed the need for auditors to be independent and objective and ensure that the individuals working on the team were unbiased.

Members questioned how a failure to comply with these standards had been allowed to happen in other local authorities.

The Assistant Chief Executive - Performance advised that most local authorities were well managed but where such cases had occurred, the local authorities had clearly not been well run and it was likely that they had experienced many other problems also. He advised that the Local Government measure would give Ministers powers to compel local authorities to make improvements.

Members asked if the recruitment process for consultants was well monitored to ensure that the consultants who were engaged were objective and independent.

The Assistant Chief Executive - Performance advised that internal audit did examine the processes behind the recruitment of consultants.

Members asked what additional costs and resources would be involved in the transition to IFRS.

The KPMG Manager advised that the transition would be a one off project for BCBC's finance team. Additional audit fees of £10,000 had been charged in the previous year for the additional work undertaken but the costs for this year would be absorbed into the audit fees. The transition to IFRS would result in the accounts being longer but there was not significantly more work involved for staff.

The Chief Internal Auditor confirmed that she was confident that the Council's accountancy team would be able to cover the additional work. She explained that KPMG would advise if they had any concerns but they had not expressed any concerns to date over the current staffing levels.

Members requested an update on progress being made with Job Evaluation/Equal Pay.

The Assistant Chief Executive - Performance advised the Committee of the number of claims received and explained that BCBC was involved in the employment tribunal process with a group of other local authorities. The litigation process was well underway and BCBC would continue to respond appropriately. Work had been undertaken and shared with the external auditors on the issue of potential liability and exposure to risk, and provision had been made in the Council's reserves for meeting the claims. Progress had been made with Job Evaluation over the last 12 months and contingency provision had been made for the potential costs. Once the proposals had been developed - hopefully within the next three months - they would be consulted on with the trade unions and staff.

Members expressed concern that BCBC did not have a good record on major contracts being completed within budget and asked if KPMG had a view on this or would they simply be looking for assurance that appropriate controls were in place for all new contracts?

The Director, KPMG advised that the external auditors would identify the major projects that were underway and would ask what controls were in place to manage them. They would then take a view on whether the controls were sufficient to capture potential overruns so that action could be taken.

In response to a question from Members, the Assistant Chief Executive - Performance advised that he was not aware of any major issues with the MREC contract and BCBC had no exposure to significant new liability.

With reference to equal pay claims the Assistant Chief Executive - Performance confirmed that there was no ceiling on claims but that they could continue to be submitted by staff. It was his understanding that past employees could make claims but he was uncertain whether or not families of deceased employees could pursue claims, and advised that he would check this point and advise Members accordingly.

RESOLVED: The Audit Committee noted the report.

165 INFORMATION AND ACTION REQUESTS BY COMMITTEE

The Chief Internal Auditor presented a report the purpose of which was to summarise for Members actions and information requests made by the Audit Committee. She advised that of the two actions which were outstanding, work was well underway in the matter of Human Resources records and it was hoped to bring a report to the Committee in May or June. In the matter of the Shared Services Agreement with the Vale of Glamorgan Council, the Chairperson had received a response from the Chief Executive to her letter which she read out to the Committee. The Chief Executive agreed that a speedy response was required to formalise the current arrangements, in addition to a mechanism for transferring staff and costs, and ensuring that the appropriate levels of skills and capacity were in place. The Chief Executive had advised that she would ask the Assistant Chief Executive - Performance to take forward the work on Shared Services. The Agreement had been actively discussed by Human Resources Departments of both local authorities.

The Assistant Chief Executive - Performance advised that a Project Brief had been developed and that the Chief Internal Auditor was working on a structure for the new Internal Audit service. A Shared Service was already established between Cheltenham and a neighbouring local authority, and the Assistant Chief Executive - Performance would be contacting Cheltenham Council to obtain a copy of their model of governance arrangements.

Members asked if KPMG had any difficulties with the Shared Services proposals.

The KPMG Director confirmed that they audited other Councils with similar arrangements and these worked well.

RESOLVED: The Audit Committee noted the report.

166 COMPLETED AUDITS

The Group Auditor presented a report the purpose of which was to summarise for Members the findings of audits recently completed by Internal Audit. He advised that Internal Audit had no serious concerns about any of the audits. In respect of the Insurances Services audit, he explained that a substantial insurance fund was maintained by the Local Authority, and Internal Audit were pleased that a recent tender had realised savings of £109,000. Minor recommendations had been made but Internal Audit were generally happy with how the service controlled risks. The Housing Benefit service continued to be well controlled; however, major changes would need to be managed in 2011 and 2013. Catering Services - there had been in reduction in income over the last three years attributable in part to the opting out of the service by three secondary schools. Internal Audit's main concern was to ensure that BCBC education funds were not being used to subsidise school meal

costs in those schools which had opted out. There was a need for the Directorate to establish firm governance arrangements and clear lines of responsibility.

Members expressed concern about the lack of clarity over where liability would lie in the case of an incident such as food poisoning in one of the opted-out schools.

The Group Auditor advised that Internal Audit believed that the Children's Directorate needed to establish lines of responsibility. There were also implications for WAG's 'Appetite for Life' programme if the schools were using suppliers whose meals may not include healthy options.

The Assistant Chief Executive - Performance suggested that the Committee needed to have an understanding of the reasons behind the decision to opt out, and to be apprised of the arrangements now in place at those schools. He suggested that the Council might retain some liability should any claims be made as the schools were still under the control of the Local Authority.

In response to a question from Members, the Group Auditor confirmed that free school meals would continue for those pupils eligible. He explained that Internal Audit's primary purpose was to audit how schools were spending the funding provided by the Local Authority. Internal Audits would not normally be concerned with school activity taking place outside of that funding but did ensure that an audit of the Private School Fund was being carried out.

Internal Audit were happy with the day to day management of catering services and felt that there were reasonable controls in place. However they did wish to see something definitive in respect of the relationship between the Local Authority and the three opted out schools.

RESOLVED: The Audit Committee noted the report and requested a report from the Corporate Director - Children detailing the circumstances which led to the decision by three secondary schools to opt-out of the Catering Service, and the arrangements in place in respect of liability, responsibility and quality control.

167 **COMPLIANCE OF INTERNAL AUDIT TO STANDARD IN CODE OF PRACTICE**

The Chief Internal Auditor presented a report the purpose of which was to inform the Audit Committee of the findings of the self-assessment checklist which was used to measure compliance of Internal Audit to the Standards in the Code of Practice. The results of the self-assessment were set out in Appendix A of the report. These results demonstrated that Internal Audit met all eleven standards, seven fully and four partially. She explained that work needed to be done to formulate job descriptions and person specifications which defined the required qualifications, skills and experience for internal audit staff. The CIPFA good practice guide would be used to provide a methodology for this process, and the completed work would be brought back to the Committee for review.

Further work was required to enable the Section to be fully compliant with the standards in respect of recording audit assignments, in particular there was a need to draft a policy for the retention of all audit documentation, and an access policy for audit files and records. At present there was no comprehensive set of targets to measure performance but this would be achieved through the Internal Audit Business Plan. The Audit Committee would be kept fully informed of all the

work the Internal Audit were undertaking to achieve full compliance with the Code Practice.

RESOLVED: The Audit Committee noted the report.

168 SELF-ASSESSMENTS CHECKLIST - MEASURING THE EFFECTIVENESS OF THE AUDIT COMMITTEE

The Chief Internal Auditor introduced a report the purpose of which was to inform the Audit Committee of the findings the self assessment checklist used to measure the effectiveness of the Audit Committee. The Chief Internal Auditor thanked the five Members who had completed and returned their self-assessment checklist. The officer commented on the areas where the Members had responded 'No', beginning with 'Committee Input into the External Audit Programme'; she advised that Committee Members had an opportunity to discuss the external audit programme when KPMG presented their work to the Committee, and the Committee could provide a perspective on the Audit Plan and could influence the emphasis of that Plan if necessary.

In respect of the membership of the Committee, the Chief Internal Auditor advised that whilst the Chairperson was not free of Scrutiny functions, the most important fact was that the Chairperson was not a member of the Executive. She explained that in some local authorities the Audit Committee was composed of independent members of the public, rather than Councillors and the possibility of expanding this practice across all local authorities in England was being explored.

She explained that there was currently no training offered to Members specifically on internal audit, however, this could be incorporated into the induction training provided to all new Members. She suggested that a draft training programme could be brought to the Audit Committee for Members input.

RESOLVED: The Audit Committee considered the report.

169 AMENDED FORWARD WORK PROGRAMME

The Chief Internal Auditor presented a report the purpose of which was to present the amended Forward Work Programme to the Committee. She advised that the Project Management update report scheduled for March 2011 had been deferred until the April meeting. The remaining Forward Work Programme items were on schedule to come before the Committee in April, and these included the new Forward Work Programme detailing agenda items from May onwards.

RESOLVED: The Audit Committee considered and approved the Forward Work Programme.

The meeting closed at 3.55pm.